

# Real Estate Digest

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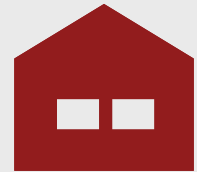


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## Interest Rates to Remain Flat as Slow Recovery Begins

Federal Reserve Chairman Ben Bernanke is offering home buyers and real estate leaders generally good news – advising Congress that he currently sees no need to raise interest rates. Bernanke said the economy was currently growing at a sustainable level, suggesting there is no need to raise interest rates.

The flat rates – which remain at near-historical lows – along with the pressure of new household creation is leading NAR and other industry watchers to believe the housing market will continue to improve through 2007 after bottoming out in 2006.

“Pent-up demand by first-time, move-up, and life change buyers is bringing life back to market. Late last year, we saw buyers out in unusually high numbers for the late fourth-quarter market. They’ve continued atypically

high through the first several months of 2007 despite snow and bitter cold,” says real estate analyst Mark Nash.

### Sales down, prices up

NAR economist David Lereah is projecting existing home sales will reach 6.44 million this year, about the same as the 6.48 million sold in 2006. New home sales, however, will drop from 1.06 million last year to about 961,000 this year, he says.

Lereah believes the median existing-home price should grow by 1.9 percent to \$226,200 in 2007, after rising only 1.1 percent in 2006. The median new-home price is expected to increase 1.8 percent to \$249,800 in 2007.

### Gap in affordability

Meanwhile, numbers from the National Association of Home Builders again put Indianapolis at the top of

America’s “most affordable” list, while the Los Angeles area continues to bump along at the bottom.

According to the NAHB, nationwide, 41.6 percent of new and existing homes that were sold in the fourth quarter of 2006 were affordable to families earning the national median income of \$59,600.

In Indianapolis, 89 percent of homes sold were affordable to families earning the area’s median household income of \$65,100. The median sales price of all homes sold in Indianapolis during that time was \$113,000. Compare that to Los Angeles, where just two percent of new and existing homes were affordable to those earning the area’s median family income of \$56,200. The median sales price of all homes sold in the area during the period was \$525,000.

## MARKETS

### 10 Ways to Know When The Market Is Up – or Down

Given that “all real estate is local,” it pays to search for clues nearby to gauge the market’s directions. Here are some of the measures and issues to consider:

- 1 Population.** Check with your local economic development office for specifics. Rising population creates demand.
- 2. New home starts.** While more people create demand, more units create supply, and that can keep a check on prices.
- 3 Prices.** Ask your agent to produce customized pricing data for neighborhoods. Take a look at historical data for the past few years and look at trends.
- 4 Days on the market.** An important measure of local activity concerns the length of time it takes to sell a typical home – some will take longer, some will sell faster, but there is a general average



which gives some sense of market activity.

- 5 Narrow your inquiry.** Use care when looking at general statistics; they may give you an incorrect picture. For instance, broad market trends may include both condos and detached properties. It may be that the local market is doing well generally but condo prices have stalled – or vice versa.
- 6 Get real pricing info.** Recorded sale prices may not reflect actual transaction values. If a home sells for \$500,000 but the owner pays a three percent “seller contribution,” then the real price to the owner is less than what the records show.
- 7 Watch those interest rates.** Whether you’re a buyer or seller, lower rates are good for real estate, while higher rates constrict demand and reduce sales.
- 8 Check for jobs.** When local employment is rising, that’s a good sign for real estate; when the local job count goes down, look for fewer sales and moderated prices.
- 9 Read the local paper.** Look for new road openings, planned malls, new factories, school construction and building permits. All suggest where local growth is headed.
- 10 Ask around.** Speak with friends and neighbors. Chat with brokers. There are lots of insightful local people who may have interesting ideas and opinions.

## TRENDS

### More Parents Relocate for Private Education



It isn’t uncommon for parents to search beyond their neighborhood for the best school, but searching the entire country?

Nationwide, a small but growing number of parents are dramatically altering their families’ lives to pursue the perfect

private school for their children. While past generations of parents might have shifted addresses within a town to be near a particular school, or opted for an inter-district transfer, these parents are choosing school first, location second.

“I hear about it all the time,” says Patrick Bassett, president of the National Association of Independent Schools, or NAIS, in Washington, D.C.

The phenomenon is driven by rapid changes in technology, which give many parents geographic latitude with their jobs. The Internet has created a national marketplace for schools, with troves of information on almost any school in the country, and even particular administrators, available within a few clicks.

Parents are also looking to schools to provide a source of values and community for their children, replacing neighborhoods, churches or workplaces, educators say. Sometimes, it’s also a source of community for parents as well. School “is the new town center,” says NAIS’s Mr. Bassett. “It’s becoming the priest, the minister, adding a much larger dynamic of social expectations.”

The vast majority of parents still send their children to their local public schools. Of those who opt for the private sector, the number moving to cities for schools may be higher than administrators realize because parents occasionally bend the truth at interviews, admissions officials say. School officials speculate some may be reluctant to admit to pursuing a school with such fervor.

### The Landline Telephone: A Thing of the Past?



Hardwired telephone lines are quickly becoming obsolete as more apartment dwellers rely on cell phones as their primary phone, according to a technology survey by the National Multi Housing Council.

The survey found that only 58 percent of apartment homes have a wired landline phone, and only 38 percent of renters consider it their primary phone. About 88 percent of renters have mobile phones. The survey also found that 78 percent of apartment dwellers have computers in their homes and 85 percent of those subscribe to a high-speed Internet service. Almost 70 percent of respondents said they would like their buildings to have wired hotspots.

### Fewer Home Buyers Making Down Payments



Fewer people are making down payments when they purchase homes. More than 20 percent of California buyers now finance their entire purchase, up from just 4.5 percent in 2000. Among first-time buyers, 41 percent do not put money down. Nationwide, the group said, the trend is even more pronounced, with nearly 30 percent of buyers and 45 percent of first-time buyers no longer making down payments.

### Study Estimates Life-Span Of Home Components



The National Association of Home Builders has released a preliminary study on the life-span of components in the average home. Here are some of the initial findings:

- ✱ All types of insulation can be expected to last the lifetime of a home if properly installed and not punctured, cut, burned or exposed to ultraviolet rays and kept dry.
- ✱ Aluminum windows can be expected to last 15 to 20 years, and wooden windows can last upwards of 30 years.
- ✱ Slate, copper and clay/concrete roofs can be expected to last more than 50 years. Roofs made of asphalt shingles should last



for about 20 years; fiber cement shingles should last about 25 years, and wood shakes for about 30 years.

✱ Homes usually need to be painted every 5 to 10 years depending on the content of the paint (its glossiness), its exposure to moisture, and traffic. Quality paints, per se, are expected to last upwards of 20 years.

## Seniors Digging The Internet



Older Americans are making extensive use of the Internet in searching for their next home. A report released by the Senior Advantage Real Estate Council found, among other things,

that half of all seniors use the Internet to look for their next home. Of those, 61 percent used it to find a good real estate agent and 92 percent were doing comparative home price shopping.

The study also found that most retiring seniors said they preferred to live in their home state and most moved no more than 100 miles from their current dwelling.

## MORTGAGES

### Mortgage Defaults Spread, Snagging More Borrowers



The mortgage market has been roiled by a sharp increase in bad loans made to borrowers with weak credit. Now there are signs that the pain is spreading upward.

At issue are mortgages made to people who fall in the gray area between “prime” (borrowers considered the best credit risks) and “subprime” (borrowers considered the greatest credit risks). A record \$400 billion of these midlevel loans – which are known

in the industry as “Alt-A” mortgages – were originated last year, up from \$85 billion in 2003, according to *Inside Mortgage Finance*, a trade publication. Alt-A loans accounted for roughly 16 percent of mortgage originations last year and subprime loans an additional 24 percent.

The catch-all Alt-A category includes many of the innovative products that helped fuel the housing boom, such as mortgages that carry little, if any, documentation of income or assets, and so-called option adjustable-rate mortgages, which give borrowers multiple payment choices but can lead to a rising loan balance. Loans taken by investors buying homes they don’t plan to occupy themselves can also fall into the Alt-A category.

Borrowers who take out Alt-A mortgages are considered less risky than subprime borrowers because of their higher credit scores. But as the housing market cooled and loan volume declined, some lenders lowered their standards for Alt-As. Now a rising number of borrowers who took out these loans are running into trouble.

Some 2.4 percent of Alt-A loans are at least 60 days past due, according to UBS, which looked at mortgages that were packaged into securities and sold to investors. While alarming, this is well below the 10.5 percent delinquency rate for subprime mortgages.

### Appraisers Say They Feel Pressured



Ninety percent of real estate appraisers say they feel pressure from real estate agents and lenders to “hit the number” when placing values on homes. A survey released by the American Society of Appraisers (ASA) found that 90 percent of members said they had felt some pressure from banks and brokers, compared to 55 percent in a similar survey in 2003.

“I am not surprised that so many ap-

praisers surveyed still feel pressured to hit a particular number to close a deal,” said Mike Evans, an ASA Fellow.

He said the pressure has led to instances of overvalued homes and property flipping that in turn have led to overpayments on homes, mortgage defaults and government underwriters losing billions.

## AGENTS’ CORNER

### California Realtors Sue to Keep Health Insurance



The California Association of Realtors has filed a lawsuit against Blue Shield of California asking the court to stop Blue Shield from canceling the policies of some 8,000 Realtor members and their families.

Blue Shield says it is taking the action because the number of CAR participants in the plan has fallen below the level called for in its contract. CAR says Blue Shield has not negotiated in good faith to resolve the issue.

### Sign Ordinance Preventing Business



Real estate brokers and other businesses in Prescott, Ariz., are opposing a sign ordinance that bans “windblown displays” as part of outdoor advertising efforts.

The ban includes things such as balloons attached to signs, streamers, banners and pennants. The purpose of the ban is preserve the scenic beauty of the area, but businesses say the restriction is too harsh and prevents commerce.

The city has promised to look at a variety of compromises, including one that would allow windblown attachments during weekends only.

## Realtors Take on Builders Over Private Tax



A California legislator and real estate agent is introducing a bill to stop developers from charging transfer fees every time homes in their developments are resold. Sen. Lou Correa maintains the fees amount to a private tax that is collected by the developers. The builders say the fees are necessary to maintain common properties and amenities. Realtors and home owners complain the fees could be collected for decades if they are not prohibited by law.

## Analysts: Shift from Print to Online Continues for Real Estate Advertising



The real estate advertising bubble is about to burst for U.S. newspapers, several newspaper analysts say. Even as the real estate market has cooled during the past two years, newspapers' 2006 real estate ad sales grew to \$4.6 billion, or about eight percent of total newspaper revenue, from \$2.6 billion a decade earlier, *Advertising Age* reported.

But the cycle appears to have peaked as major publishers – including Tribune Co., McClatchy Co. and Lee Enterprises

– reported real estate ad declines in the high single digits starting in January, the magazine said.

While Newspaper Association of America Vice President Charlie Diederich said he expected the ad growth to return by the end of this year, classified-industry experts and real estate agents said the category could be dominated by online players by the time the sector revives.

The outlook is far rosier for online marketing. A report by research and consulting company Borrell Associates states that online real estate advertising grew from \$1.2 billion in 2004 to \$1.7 billion in 2005, increasing from a 10.3 percent ad-spending share to a 14.7 percent share. And Borrell expects online real estate ad spending to grow to a \$3.1 billion market by 2010.



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